

Congressman Ron Paul

Statement before the Joint Economic Committee

“The Economic Outlook”

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Mr. Chairman, I believe that our economy faces a bleak future, particularly if the latest \$700 billion bailout plan ends up passing. We risk committing the same errors that prolonged the misery of the Great Depression, namely keeping prices from falling. Instead of allowing overvalued financial assets to take a hit and trade on the market at a more realistic value, the government seeks to purchase overvalued or worthless assets and hold them in the unrealistic hope that at some point in the next few decades, someone might be willing to purchase them.

One of the perverse effects of this bailout proposal is that the worst-performing firms, and those who interjected themselves most deeply into mortgage-backed securities, credit default swaps, and special investment vehicles will be those who benefit the most from this bailout. As with the bailout of airlines in the aftermath of 9/11, those businesses who were the least efficient, least productive, and least concerned with serving consumers are those who will be rewarded for their mismanagement with a government handout, rather than the failure of their company that is proper to the market. This creates a dangerous moral hazard, as the precedent of bailing out reckless lending will lead to even more reckless lending and irresponsible behavior on the part of financial firms in the future.

This bailout is a slipshod proposal, slapped together haphazardly and forced on an unwilling Congress with the threat that not passing it will lead to the collapse of the financial system. Some of the proposed alternatives are no better, for instance those which propose a

government equity share in bailed-out companies. That we have come to a point where outright purchases of private sector companies is not only proposed but accepted by many who claim to be defenders of free markets bodes ill for the future of American society.

As with many other government proposals, the opportunity cost of this bailout goes unmentioned. \$700 billion tied up in illiquid assets is \$700 billion that is not put to productive use. That amount of money in the private sector could be used to research new technologies, start small business that create thousands of jobs, or upgrade vital infrastructure. Instead, that money will be siphoned off into unproductive assets which may burden the government for years to come. The great French economist Frederic Bastiat is famous for explaining the difference between what is seen and what is unseen. In this case the bailout's proponents see the alleged benefits, while they fail to see the jobs, businesses, and technologies not created due to this utter waste of money.

The housing bubble has burst, unemployment is on the rise, and the dollar weakens every day. Unfortunately our leaders have failed to learn from the mistakes of previous generations and continue to lead us down the road toward economic ruin.